S&P Global
Market Intelligence

Sonoco Products Company

NYSE:SON

Earnings Call

Thursday, July 23, 2026 1:00 PM GMT

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Sonoco Second Quarter 2026 Earnings Conference Call. [Operator Instructions] I will now hand the conference over to Roger Schrum, Head of Investor Relations and Global Marketing Communications. Roger, please go ahead.

Roger P. Schrum
Head of Investor Relations & Global Marketing Communications

Thank you, Warren, and good morning, everyone. Last evening, we issued a news release and posted an investor presentation that reviews Sonoco's Second Quarter 2026 financial results. Both are posted on the Investor Relations section of our website at sonoco.com. A replay of today's conference call will be available on our website later today, and we'll post a transcript later this week.

If you would turn to Slide 2, I'll remind you that during today's call, we will discuss a number of forward-looking statements based on current expectations, estimates and projections. These statements are not guarantees of future performance and are subject to certain risks and uncertainties. Therefore, actual results may differ materially.

Additionally, today's presentation includes the use of non-GAAP financial measures, which management believes provides useful information to investors about the company's financial condition and results of operations. Further information about the company's use of non-GAAP financial measures, including definitions as well as reconciliations to GAAP measures is available under the Investor Relations section of our website. Joining me this morning are Howard Coker, President and CEO; and Paul Joachimczyk, Chief Financial Officer. For today's call, we will provide prepared remarks followed by your questions. If you'll turn to Slide 4 in your presentation, I will now turn the call over to Howard.

Robert Howard Coker
President, CEO & Director

Thank you, Roger, and good morning, everyone. Our Sonoco team delivered solid second quarter results that met our expectations and exceeded consensus estimates as productivity and cost controls helped offset global inflation in logistics, petroleum-based chemicals and coatings and raw materials. Paul will go through the financial details, so I'll concentrate my comments on the solid operating performance of our Industrial and Consumer segments, where we are the global leaders in uncoated recycled paper and metal and paper cans.

Results from our Industrial segment exceeded our expectations with operating profits up 4% from what was a strong quarter last year and up 29% from the first quarter. The segment's improvement was driven by $16 million in productivity gains, which more than offset price cost headwinds stemming from rising costs for freight, chemicals, OCC and lumber.

Driving industrial growth was strong results from our North American URB mills as trade tons were up 6.4%, which boosted mill utilization rates to 95%, the highest level in years. Much of this increased demand came from new market development, such as saturated URB for laminates as well as share gains. Reels volumes were up 10% as we continue to benefit from demand from wire and cable customers who are helping with the infrastructure build-out of data centers, serving artificial intelligence investments.

Overall, global industrial volume mix was flat for the quarter as the strong results from our mills were partially offset by lower demand in Latin America and some of our converting operations. On the consumer side, operating profit was off by 5% during the quarter, but was up 22% sequentially from the first quarter. Productivity and cost containment initiatives boosted consumer results. Paper can volumes were up 9% in EMEA and APAC, with Asia volumes being up 29%.

Overall, segment volume mix was off 1.8%, driven primarily by lower metal aerosol cans and adhesives and sealant tube demand in the United States. I would add that both U.S. food can and aerosol volumes were strong last year in the second quarter with volume mix up 6%. As shown on Slide 5, global inflationary pressure driven by higher energy expenses stemming from the Middle East situation costs us roughly $10 million of operating profit in the quarter.

Freight was the largest component of those cost headwinds, but raw materials were also higher, particularly OCC, which is up $40 per ton year-to-date to $100 a ton. While we were behind the price/cost curve in Q2, recovery mechanisms are now in place to fully offset these costs.

This includes an April URB and converted product price increase, which fully goes into effect in the third quarter and a $60 ton increase for URB, which went in place on July 8. We have also implemented contracted paper can price increases globally and are adding necessary surcharges to offset higher diesel costs. Now I'll take a minute and turn the call over to Paul, and then I'll come back on with some thoughts regarding second half expectations.

Paul Joachimczyk
CFO & Principal Accounting Officer

Thank you, Howard, and good morning, everyone. Before turning to the quarter, 2 quick reminders. First, all the results discussed today are on an adjusted basis, unless otherwise noted, with a full GAAP reconciliation included in our earnings release and accompanying presentation. Second, while the TFP divestiture has now fully annualized, ThermoSafe continues to affect certain year-over-year comparisons within continuing operations, and I'll provide underlying context where it is helpful.

Turning to the second quarter results on Slide 7, the second quarter was another quarter of solid execution in line with the priorities we outlined at Investor Day. We delivered earnings growth, generated strong cash flow, maintained margins and continue to realize benefits from our profitability performance plan. Most importantly, these results demonstrate that the strategic actions underway across Sonoco are translating into measurable financial improvement and positioning the company for stronger long-term performance. Net sales were $1.9 billion, down 1% compared with the prior year.

Pricing gains continue to provide support and helped offset softer demand in select markets, while foreign exchange was a modest tailwind during the quarter. Adjusted EBITDA was $324 million, down 1% versus the prior year, and adjusted EBITDA margin was 17.2%, in line with the prior year period. Productivity, pricing actions and early contributions from our profitability performance plan helped offset inflationary pressures and supported margin stability in the mixed demand environment.

Adjusted EPS to $1.51 compared to $1.37 in the prior year, supported by the continued execution across the business, benefits from the profitability performance plans and lower interest expense resulting from the debt reduction actions completed over the last year. Prior year second quarter results from the divested ThermoSafe businesses were $66 million of revenue, $11 million of EBITDA and $0.08 of EPS.

Excluding those results, second quarter 2026 revenue and EBITDA grew by 2% and adjusted EPS increased by 17%. Operating cash flow was also a highlight, coming in at $301 million, more than $100 million above the prior year. This performance reflects strong earnings conversion and continued discipline around working capital and capital deployment. Taken together, the quarter reinforces the strength of our operating priorities and demonstrates continued progress off of the strategy we laid out at Investor Day.

Turning to the EPS bridge on Slide 8, I'll take you through the primary drivers of the year-over-year improvement in earnings per share. Adjusted EPS grew $0.14 or 10% year-over-year within the business. Both the Consumer and Industrial segments benefited from pricing gains and productivity improvements, which helped mitigate input cost pressures and softer volume in several markets. Nonoperational items also contributed meaningfully to the year-over-year improvement.

Lower net interest expense provided $0.14 of a benefit driven by debt reduction actions completed over the past year. Foreign exchange and improved tax rate and other elements also supported the EPS improvement. Our profitability performance plan contributed $0.07 during the quarter, marking the second consecutive quarter of realized benefits. This is an important proof point that the program is gaining traction and beginning to deliver the structural cost and productivity improvements we committed to at Investor Day.

The key takeaway from the bridge is straightforward. While the operating environment remains uneven, our teams are executing well. Pricing, productivity and cost discipline actions are helping offset external pressures and support continued earnings growth. While the earnings bridge highlights the benefits of those initiatives on profitability, turning those earnings into cash is equally important. Turning to the cash flow on Slide 9, cash generation remains a central priority for the company, and the second quarter results were strong.

Operating cash flow of $301 million was up 56%, and free cash flow of $237 million was up 139% year-over-year. Gross capital investment was $64 million, consistent with the first quarter spending levels. We continue to monitor capital spending very closely and remain focused on projects that generate attractive returns. Our capital allocation priorities remain unchanged: fund the business, support the dividend and continue strengthening the balance sheet through disciplined capital deployment.

Turning to our segment performance on Slide 10. Looking at the Consumer segment first, sales increased 1% year-over-year to $1.24 billion despite continued demand variability in select markets, pricing discipline remains strong at plus 2 points and favorable foreign exchange contributed an additional point. We are seeing volume improvements in several served markets. Looking at metal cans, we had double-digit unit growth in our pet food in EMEA, which now represents 15% of our global food can units.

As Howard mentioned earlier, we are seeing strength in the paper can volumes in EMEA and APAC as well. The consumer team continues to make steady progress through pricing discipline, productivity improvements and profitability initiatives. The team remains focused on simplifying processes, strengthening their cost structure and improving operating performance. These actions are helping position the segment for stronger execution as we move through the balance of the year.

Turning now to Industrial, Industrial sales were $643 million, up 4% versus the prior year. Pricing contributed 3 points of growth, while favorable foreign exchange rate added another point. Volume and mix were flat as growth in the global URB, reels and industrial plastics offset softer demand in the LatAm market and converting. Segment adjusted EBITDA increased 3% year-over-year to $122 million. The Industrial segment delivered solid execution in the quarter, supported by productivity improvements, commercial initiatives and disciplined cost management.

While inflation in materials and freight and other operating costs exceeded price recovery during the quarter, productivity initiatives more than offset the remaining pressures and supported year-over-year earnings growth. Given the exit rates we are seeing in both pricing and productivity initiatives, the current actions underway position this segment as we move through the second half of the year.

On the next slide, I'll take you through the progress of our profitability performance plan. On Investor Day, we outlined a 3-year initiative designed to strengthen margins, simplify our operating structure, improve commercial execution and enhance the long-term profitability and competitiveness of Sonoco. We are encouraged by the progress we've made through the first half of the year. During the second quarter, the program delivered $10 million of savings, bringing the year-to-date savings to $18 million.

Annualized savings now stand at roughly $38 million for modeling purposes, representing 25% at the low end of our 3-year target range. More importantly, these benefits are already visible in our financial results today and reinforce our confidence in margin improvement and earnings growth objectives we outlined at Investor Day. The progress we are seeing reflects the quality of the initiatives underway and the organization's ability to execute. While we are still early in the program, the results achieved to date are encouraging and reinforce our confidence in the path ahead.

Turning now to our full year guidance on Slide 12. Based on our year-to-date performance, the momentum we are seeing across our operating initiatives and our expectations for the balance of the year, we remain confident in our ability to deliver results within our previously communicated guidance.

For the full year, we continue to expect net sales of $7.25 billion to $7.75 billion, adjusted EBITDA of $1.25 billion to $1.35 billion, adjusted earnings per share of $5.80 to $6.20 and operating cash flows of $700 million to $800 million. As we move through the second half of the year, our priorities remain unchanged.

We are focused on executing the profitability performance plans, driving productivity improvements, maintaining pricing discipline and strengthening the working capital performance. Sonoco is becoming a more focused, more streamlined and more financially disciplined company. In summary, the second quarter demonstrated continued execution aligned with priorities established at Investor Day. We generated strong cash flow, maintained our EBITDA margins, advanced our profitability performance plans and delivered year-over-year EPS growth.

Collectively, these actions are improving the quality of our earnings, strengthening the balance sheet, increasing the company's long-term value creation. We are encouraged by the momentum we have built through the first half of the year and remain focused on delivering our commitments for 2026. With that, I'll turn the call over to Howard.

Robert Howard Coker
President, CEO & Director

Thanks, Paul. And to your point, Sonoco is well positioned entering the second half. Let me explain why I'm bullish, starting with our Industrial segment. As shown on Slide 14, our team continues to ramp up production of saturating URB for a growing opportunity in high-pressure lines. Recognizing an unmet need in this market, we took more than a year of technical development, trialing and testing to develop a recycled paper grade that can be used in making laminate products for countertops, flooring, composite boards and decorative panels.

By the end of this year, we'll be producing roughly 10,000 tons annually. And with added capability, we expect to increase to 20,000 tons annually by the end of 2027. We're being conservative about this new market, but we think there is additional growth potential, but we will need further capacity to meet domestic demand. In addition to market leadership in URB, we also are the North American market leader in the production of nailed wood, metal and poly fiber reels as shown on Slide 15.

In the second quarter, we completed a $20 million expansion at our Hartselle, Alabama wire and cable reels production center. This capacity addition is vitally needed to address the fast-growing wire and cable industry's demand and building out artificial intelligence data centers, along with serving the growing power grid and communication markets. Even though we increased sales by 13% and volumes 10% in the second quarter, we have been essentially sold out and needed this additional capacity to meet market demand.

Currently, we're starting up new robotic equipment that will enable us to increase our nailed wood reels production by approximately 15%. Now switching to our Consumer Packaging segment. We continue to develop new commercial opportunities through new products and market developments as illustrated on Slide 16. Our new paper can plant in Thailand, which came online in March is continuing to ramp up production and recently started a second line that allow us to produce roughly 200 million units annually with room for additional growth.

In addition, we will be adding new paper can production lines in South America and the U.S. in 2027 to serve growing snack customers. In Europe, Sonoco is the largest producer of metal cans serving seafood and vegetables, which are 2 of the largest can markets. To improve efficiency and to meet demand in the Italian market, we are installing 2 new can lines to serve tomato and tuna customer. As Paul mentioned, pet food grew double digits in the quarter and represents one of the fastest-growing markets globally. We're launching new projects to grow our position, particularly in Europe.

We recently opened a new metal can and ends production line in France that will enable us to work more closely in partnership with key brands and co-packers. Finally, our commercial teams have been working with our engineers as we invest to grow new products, which include examples such as Orbit, easy-open closures, which make opening jars easier than regular twist closures. Ecopeel, an easy-open feature for metal food cans, which uses less materials. New microwavable-safe metal bowls, which are a highly recyclable alternative to traditional plastic trays for ready meals and convenience foods.

And finally, our proprietary Greencan packaging innovation featuring up to 98% paper content that is able to package a wide range of dry food products. Turning to Slide 17, we are encouraged that several key indicators are strengthening in our favor as we begin our busiest period of the year.

Demand for Sonoco URB in North America, as we've noted, is very strong and our backlogs have grown, which requires that we import paper from Europe and Latin America mills through the third -- all the way through the third quarter. To remind you, this is a very complex market, and this allows us to not only ensure supply security, but also enables longer sustainable grade runs in North America, which further drives our productivity.
In consumer, as I mentioned, new paper can growth in Europe, Asia, South America and North America has us exploring additional capacity expansions while customer promotions and new product launches are projected to lift can volumes as we enter the important pack season in both the U.S. and EMEA.
And finally, we now have in place inflation recovery mechanisms, which will help us restore our margins.
While we remain mindful of external macroeconomic conditions, we are confident in our strategy, our portfolio and ability to execute through economic cycles. So with that, operator, we'd be happy to take any questions that the folks may have.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of George Staphos with Bank of America Securities, Inc.

George Leon Staphos
BofA Securities, Research Division

My 2 questions. Howard, over the weekend, we got some of the market commentary from the trade publications regarding some of the markets. And there was commentary that the URB market actually loosened at least in terms of what the trade pubs were hearing from their respondents. Is there anything -- I recognize you're bringing in paper from Europe, but did any of your markets loosen? What, if anything, do you think might be observed by respondents?

And I guess, do you remain comfortable with your pricing for July? The second question, as we look back at our notes and what you're talking to coming out of 1Q, looks like industrial did better. It looks like consumer maybe was a bit off from kind of your trajectory coming into 2Q. Would you agree with that? And where were, if there were some of the variances in consumer, especially in consumer volume in North America, if you can talk to that.

Robert Howard Coker
President, CEO & Director

Sure, George. Look, no, we are not seeing any weakness in our served markets under URB. As you know, we focus on the high end of the market. It just -- frankly, that was a bit of a surprise for us to read that. So we have gained some share along the way. But I really can't comment because we, as I said in my commentary, are actually looking at backlogs all the way through the third quarter. We are bringing paper in support of demand here in North America.

But as I noted again in my commentary, we can serve the market. It's just when we get to these type of operating rates in order to be as efficient as we can, it makes better sense for us to set up on our high-quality, high-performing grades and run, run and fill in with material from overseas. So I can't answer the question on what that survey -- where that data came from because we certainly are not seeing that.

On the consumer side, particularly in North America, we did see a bit of a slowdown, but it was somewhat, I would call, macro related, particularly in the adhesives and sealants. As you know, we are the largest producer of caulking cartridges, mastic cartridges in the U.S. And particularly in June, we saw a bit of a pullback. But that is more of a housing-related remodeling type -- and could that be an indicator of what's to come? Maybe. But that was probably the biggest.

Aerosols were slightly down. We had a tough comp for sure. But the 2, you can say, portions of that are related to that segment, spray paints, et cetera. Other than that, things seem to be well in order. I also talked about the international side, really strong snack performance and overall performance outside the United States that really help balance things.

Paul Joachimczyk
CFO & Principal Accounting Officer

George, on the commentary, too, on the URB markets, our North American mills are running at 95% utilization. Our European mills are at 92%, and we're not seeing any slowdown in there. So I echo what Howard said, too, is we have a very technical quality grade of paper and our servicing industry goes out there really, really well. So we're not seeing any slowdown in the markets that we serve today in that URB space. So it is a very strong demand still.

Operator

Your next question comes from the line of Anthony Pettinari with Citi.

Anthony James Pettinari
Citigroup Inc., Research Division

Just following up on George's question. I was wondering if you could talk about maybe second half volume expectations that are assumed for your full year guide? And if there's any finer point you'd put on RPC versus metal cans and any early reads on pack season or maybe it's too soon.

Robert Howard Coker
President, CEO & Director

I'd say year-over-year, as we've entered the second quarter, pack season looks to be solid in both regions. What are we modeling low to mid-single digits on the consumer side of things year-over-year and low single digits on the industrial side. But the pack seasons are starting out pretty impressively at this point in time. We'll see if that sustains itself through the quarter.

Anthony James Pettinari
Citigroup Inc., Research Division

Okay. That's helpful. And then I was wondering, over the weekend, we heard news about potential tariffs on Canadian paperboard maybe coming into place next month. I think in the past, some URB had come from Canada. And I'm just wondering, does that impact any part of your business?

Robert Howard Coker
President, CEO & Director

I would say it's still an understanding and process of how this is going to settle out. But while we do cross-border, it's relatively immaterial. However, then...

Operator

Your next question comes from the line of John Dunigan with Jefferies.

John Robert Dunigan
Jefferies LLC, Research Division

Congrats on the solid quarter. I just wanted to touch first on the news that one of your peers who hasn't been in URB is now looking to add about 10% to URB capacity by the end of 2027. So I'm just wondering how much of your open market tons would you say is insulated from this and whether that be from longer-term contracts or markets like laminates that you have a clear competitive advantage? Just trying to gauge the potential impact going into next year.

Robert Howard Coker
President, CEO & Director

Thanks, John. Yes, Howard was saying. So what I would say is URB is a very complex market. We -- as you're well aware, we have invested heavily frankly, we've been in it for over 125 years. But in the last 5 to 8 years, we have really invested in our capabilities. And one thing that we have been clear about is that we are focused on the high end, high-quality, truly demanding markets.

It's not just about the product that we produce, but it's what's behind the scenes, the service, the various applications and our deep knowledge of usage of our product and how we can solve problems for our customers. So we don't target. We don't play in a commodity side of this business on a regular basis. And we are full as we can be servicing the high end of the market. We're now bringing materials in from Europe and Latin America. That's because they too can make and do make and participate in these higher-end markets. So yes, we hear that. And I don't see where that has any bearing on what we do for a living.

John Robert Dunigan
Jefferies LLC, Research Division

That's great to hear. And then just going back to the comments on tariffs. So I understand that you guys don't really ship a lot from Canada into the U.S. I believe some of your peers in Canada do. Do you think that's material enough to maybe offset the new capacity coming online from one of your U.S. competitors. Obviously, the whole situation is fluid, and we had to actually see 50% tariffs on URB get implemented. But I'm just wondering how much could actually be constrained if these tariffs go into place?

Robert Howard Coker
President, CEO & Director

Yes. I think first off, it depends on what the ultimate ruling is, meaning is of what's tariffs, what's not tariff. I'm not all that familiar. I agree with you. There's a couple of folks that in Canada that probably do cross-border. I would imagine they participate. And I would assume in the tube and core side of things with smaller players. I don't want to be speculating, but there'd be a real effort there to requalify someone that's not been a participant in this market to make sure they've got a product that would perform outside of the simplest grades that are available in the marketplace.

Operator

Your next question comes from the line of Mike Roxland with Truist Securities.

Michael Andrew Roxland
Truist Securities, Inc., Research Division

One quick one just on the -- on your guide. Howard, I think your comment, it sounds like your guidance for the year embeds the July price increase of $60 per ton. However, as George noted, the trade publication didn't reflect that in the latest print. So can you help us understand any downside risk to the guide should that price increase not ultimately be implemented, particularly, I would assume that you still be negative price cost if you don't get that additional $60 through. So any color you can provide on negative or downside risk to your guide should that not be reflected?

Robert Howard Coker
President, CEO & Director

Yes. Thanks, Michael. I'll let Paul jump in this in a little deeper, but what I would say what we really feel good about the third quarter that we've got the recognition and pricing, while it was recognized in second quarter, contractually July 1 is when we really start seeing complete pass-through of the inflation that we have seen and the pricing that we deserve going into the third quarter.

And I'll add to it on the consumer side, we have some major contracts that based on our customers' financial years were pricing in the first half of the year was not passed that we'll be passing July 1, August 1 time frame. So it's on both sides of the business for Q3, Q4. Paul, do you have...

Paul Joachimczyk
CFO & Principal Accounting Officer

Yes. So Michael, just I kind of echo what Howard is saying it too is our demand is really strong. And even though the guide came out last Friday and didn't indicate any movement in the pricing that's out there, we're not seeing any slowdown. Our full expectation is that we will be able to pass it. But just as a reminder, we're kind of shifting to like to tan bending chip as an indicator for our profitability and a $10 movement in that is about a $10 million annualized number that's out there, so call it, $2.5 million a quarter of an impact.

So if you do see some movement, it's hard to predict the future that's out there. But given our demand levels across our industrial space today, we are not seeing any weakening. So that would help us position for a very strong pricing position on a go-forward basis. Now we do have that this round of price increase would impact primarily the fourth quarter. Given the timing and the nature of it, it would go live into basically starting kind of October time frame. So it would be more of a fourth quarter impact than it would be a third quarter impact for us.

Michael Andrew Roxland
Truist Securities, Inc., Research Division

Got it. Very clear. Appreciate the color. And then just one quick follow-up, follow-up if I have you. It seems like in terms of profitability performance, you stressed that's gaining traction, but it seems like there was a little bit of a deceleration in 2Q relative to 1Q. Is that just a function of the macro higher inputs? Or is there something else going on? And can you help us think about the profitability performance acceleration in 3Q and 4Q?

Paul Joachimczyk
CFO & Principal Accounting Officer

Yes. So the profitability performance plans that we outlaid at Investor Day, we feel really good about it. Now we are focusing more on kind of the back-office functions in the first early phases of this, and that's really what you're seeing in that $8 million in Q1 and then $10 million and it's accelerating.

Now we do have plans on the operations front to focus on our footprint and some more of the improvements that are out there. Those structural changes take a little bit longer to implement. We need to move lines, things of that nature. So you'll see larger acceleration of the profitability performance plan kind of in Q3, Q4 and then also in '27 and '28 and beyond. But I feel really good about where we sit today, confident that the teams are doing the right things and the whole organization is focused in on.

Operator

Your next question comes from the line of Mark Weintraub with Seaport Research Partners.

Mark Adam Weintraub
Seaport Research Partners

First, just one quick clarification on the URB. You talked about $10, $10 million-ish or so. I thought though that some of the pricing is actually like tied to OCC, not necessarily what Pulp and Paper Week is doing. Could you just sort of clarify -- recognizing the expectation is that you are going to see that price increase reflected. But if it were not to be, what type of impact does it have? I think it's less than that kind of the numbers you were saying, but if you could just clarify, please.

Paul Joachimczyk
CFO & Principal Accounting Officer

Yes, Mark. So OCC is -- it's definitely an input cost that's out there. But really, what we had shifted the market to is tan bending chip a while ago. OCC will move. And if it moves up or down, that's a reflection of our input costs. And I think before we have said a $10 movement in OCC is a $6 million to $8 million impact on an annualized basis, so call it, $1.5 million to $2 million a quarter type of a number.

Mark Adam Weintraub
Seaport Research Partners

Okay. Got it. So you have moved more to -- you did say that. I'm sorry. Second, -- so it's sort of interesting because you've been -- you're pointing out a lot of areas where you're seeing nice growth on the consumer side and where it can make sense for you to be investing in some of that going on right now. And yet sort of the overall number still hasn't been very good.

I mean, are there certain areas where you would highlight where you think it's cyclical, i.e., like the building products area. Are there other areas where there are cyclical or secular concerns that are offsetting the areas where you are talking about growth? Just sort of trying to get a sense as to with all these specific areas of opportunity, where are the risks of offset that it doesn't translate to as much upside as potentially one looking at the specifics of growth might believe is possible?

Robert Howard Coker
President, CEO & Director

Well, let me start with the positive side of things. I noted in my commentary that globally, our stock volumes have been turbocharged, if you will, 29% increase in Asia, 9% in EMEA, APAC total region. And we've talked about this in many, many calls about one of our largest customers on the consumer side has changed hands. Prior to that, we had invested capital that kind of got put on hold.

We're seeing that capital go to work now. So I've had folks independently ask about World Cup and that impact. But what we're really seeing is an acceleration of market expansion from a couple of customers actually on an international perspective. So that's really a positive thing for the rigid paper side of the business.

I guess your question, as we look into the third quarter, and as I said earlier, early indicators, don't see -- we're not expecting to see much improvement as it relates to the housing market-related caulking cartridge, that type of business. But what we're hearing from our customers is things like pet food, things like canned fish, it's a global phenomenon going on in terms of the growth rates.

And so we're seeing tuna volumes in Europe almost -- well, outstripping our demand to the point where we're adding additional capacity tomato similarly. So yes, are there macro, are there weather-related issues that are unforeseen at this point in time, they could come in play. That's certainly always the case. But right now, things are feeling really positive.

Paul Joachimczyk
CFO & Principal Accounting Officer

Yes. And Mark, just to add on to that, too. In last year, we had a really tough comp. We had some really strong growth in our aerosols businesses and all of those categories kind of really tied to that discretionary spend with the variability in demand and just kind of the current macroeconomic conditions that are out there today. We did see a softness in that in the second quarter here for us.

That is not dependent in our Q3 volumes. Q3 volumes are very critical for this organization in our consumer space. They are tied to pack seasons. Pack seasons is a little bit tied to mother nature out there, but early indicators, as Howard mentioned, too, are really strong for us, and we're expecting a strong pack season.

Operator

Your next question comes from the line of Hillary Cacanando with Deutsche Bank Securities.

Hillary Cacanando
Deutsche Bank AG, Research Division

Just going back to the weakness in aerosols and sealants and adhesives. Can you quantify the volume declines? I don't know if you talked about that. I don't know if I missed it, but what was the volume decline associated with those? And then did you see any improvement just exiting June -- the month of June?

Paul Joachimczyk
CFO & Principal Accounting Officer

Yes. Are you saying that we see improvement in those particular markets, Hillary?

Hillary Cacanando
Deutsche Bank AG, Research Division

Yes, in those the consumer categories, so aerosol cans.

Robert Howard Coker
President, CEO & Director

On the adhesives and sealants side, yes, no, we don't have that available in terms of what...

Paul Joachimczyk
CFO & Principal Accounting Officer

Yes. Actually, Hillary, I'll jump in here a little bit, too. So on the adhesives and sealants and the aerosols, remember, too, there was a large player exited the space in 2024. So that capacity shifted over to a few markets that are in there. That did pick up and increase our volumes in '25, which created a really tougher comp for us.

So I don't expect any long-term issues. It's just as a comp issue from a year-over-year of as you're shifting out suppliers to those large aerosol customers, you're requalifying things, they're restocking your shelves, things of that nature. So I'm not seeing any long term, but now it is tied to, obviously, discretionary spend that's out there as well. So we have to be cautious of it, but not seeing anything that's of concern for us at this point in time.

Hillary Cacanando
Deutsche Bank AG, Research Division

Okay. Got it. And then I guess your presentation talked about World Cup-related demand and promotions boosting volumes. How much is that -- I guess, are we going to see -- how much of that, I guess, is in the third quarter and fourth quarter?

Robert Howard Coker
President, CEO & Director

The World Cup volume impact is really hard to read. That would have been more of the first quarter type as our customers are building to load up their distribution chain. What we're really seeing is that our customers, particularly 1 or 2 in particular, are actually growing their geographic and distribution channels, and we see that going on for -- throughout this year and frankly, into the coming years as well.

So we're just seeing an overall lift in terms of new ownership of one particular brand that is being very aggressive. Good news is we both had invested capital that got put on hold during the sales process that is now being fully utilized. I noted Thailand as an example. We're only about -- with the units I noted, that represents about 1/3 of the targeted output of that particular location, and there's more to come in other parts and regions of the world. So it's not a World Cup pop. This is what we've been looking for, for the last couple of -- well, 18 months to 2 years as new ownership comes into play.

Paul Joachimczyk
CFO & Principal Accounting Officer

Yes. And Hillary, to add on to that, too, we are seeing increased promotional activity in that space as well, which is leading to higher volumes. And that growth is really sitting in the international markets. You think about Europe, the Asia Pacific regions that are out there, too, and seeing really strong generation for that demand, but led to, I'll say, all of those competitors in that space, really promoting the product and driving the growth. And that's just -- we are -- I'll call it, we ride on those coattails a little bit.

Operator

Your next question comes from the line of Ghansham Panjabi with Baird.

Ghansham Panjabi
Robert W. Baird & Co. Incorporated, Research Division

Howard, just going back to the consumer business. I know there's a lot going on depending on specific end markets, including aerosol, et cetera. But how has Eviosys been performing relative to your initial plan, including synergy realization, et cetera? It looks like it's been about 18 months since you closed on the acquisition. So just your thoughts as it relates to the franchise position there, your market share in the region, et cetera, would be helpful.

Robert Howard Coker
President, CEO & Director

Yes. Thanks. Things are going -- evolving nicely. It's a big acquisition. It's going to take us a while to fully settle things down. We're seeing the benefits. Frankly, we said this from the very beginning across the globe. So we're seeing benefits here in North America. Certainly, incrementally every day, we see improvements in Europe. And -- so not to belabor the point, but volumes have, as we've mentioned multiple times, continue to improve. Our playbook is being rolled out.

It's going to be a multiyear playbook, and it's going to be a global base as well. So benefit around the world, volumes look good, key markets. I talked about investments that we made last year that are already contributing. And I'm talking about volume-related investments as well as productivity. And we have a nice funnel over the coming periods related to both growth and productivity.

So we feel good about how things are heading and looking forward to continued progress, frankly, from a global perspective as these teams continue to work together to make it a much stronger business than there ever was.

Ghansham Panjabi
Robert W. Baird & Co. Incorporated, Research Division

And then in terms of URB, as it relates to the strength that you're specifically seeing, you step back, is it a function of just tighter capacity in the industry or improving demand? And if it's improving demand, what is that specifically being driven by you think?

Robert Howard Coker
President, CEO & Director

Yes. Well, we talked about new markets that we've entered relatively on scope and scale, small, but really what we're seeing good share gain as well. And it goes back to an earlier question.

We compete with some really good competitors out there. But one thing that Sonoco has done I don't know -- we probably invested close to $200 million in our network over the last 5, 6, 7 years, obviously, including the conversion of the # 10 machine. And we continue to separate ourselves from the existing competition. And with that, you get market share gains. So it's a combination of new products as well as doing what we do better than the rest of the market.

Paul Joachimczyk
CFO & Principal Accounting Officer

Ghansham, I think one of the things, too, being relatively new to this space is the innovation that, that industrial business keeps driving and keeps challenging to get into those new markets to provide the better customer service across the space is phenomenal.

And just seeing the demand generation that they have done and been able to do in the last 12 months is great to see, and they're not stopping. They're very aggressive on working with customers to find new solutions to continue to utilize our URB mills to their full capacity and keep that funnel completely full.

Robert Howard Coker
President, CEO & Director

Yes. And I don't want to belabor the point. We don't spend a lot of time talking about our Adhesives division and the hand-in-glove relationship and how do you take a select greater board and ensure that it's going to be bound and wound and meet the needs of customers. And it's not just making paper. It's making sure that the adhesives are absolutely -- and it's an enabler for us to be in the saturated kraft market. It's our adhesives group working with our paper group, which is now all under one roof to again, separate ourselves from the existing competition and allow us to enter into new markets.

Operator

Your next question comes from the line of Matt Roberts with Raymond James.

Matthew Burke Roberts
CGS International

Second half, that inflation number came in at the high end, I think, of the 8% to 10% since last quarter, but then ran up again here in July. So maybe what are you betting in 3Q and second half? And would you say your inflation outlook has improved or worsened since April and where the greatest pressures there would be?

Paul Joachimczyk
CFO & Principal Accounting Officer

Yes. So Matt, the inflation did come in at the high end of the range of $10 million, and that was just due to, I'll call it, our inability or kind of lack of passing the recovery through it. Q3, though, all of the recovery mechanisms, as Howard talked about it, we have contractual increases that are out there, fully expect to cover that now as it sits today.

The changes can happen in reality is there could be new issues that pop up. But as we sit, we feel really confident in our Q3 recovery of that inflation, and we don't see it as a headwind on a go-forward basis.

Matthew Burke Roberts
CGS International

And then one last clarification. That's a hard one, but what portions of the industrial paper are you able to get the list price into as of July 8? Or is it basically all tied to the tan bending chip index now that should then start layering in, in October given that 1 quarter lag on those index-based contracts?

Robert Howard Coker
President, CEO & Director

Yes. I think we've been pretty public about 70% is tied to index. So that recovered day 1 of the following quarter, so July, July 1 or so. And the rest is open market, and those are typically able to pass through a big portion of that during the course of the quarter. So the real recovery starts as we enter the second -- or excuse me, the third quarter.

Operator

Your next question comes from the line of Gabe Heide with Wells Fargo.

Gabrial Shane Hajde
Wells Fargo Securities, LLC, Research Division

I'm going to try to put maybe a little bit of a finer point on consumer and industrial sort of first half, second half. I think you're actually on a year-over-year basis, ahead on price cost in consumer. And I think, Howard, you said you've got some contracts that kind of reset effective July 1, August 1. And then on a year-over-year basis, it's on the first half, you're down in EBITDA terms, about $20 million, all of which I think is attributable actually a little bit more to volume.

And it sounds like you said low single-digit year-over-year volume growth in the second half. So if that's the case and then you recover, I guess, maybe what you're behind on price cost or what you're envisioning for the second half, does that mean that we should get back to year-over-year growth of $20 million to $30 million in consumer in the second half? And then the URB hike, I think, Paul, $2.5 million per quarter per $10 a ton. So a $15 million swing factor is what we're thinking about for Q4 should RISI not reflect the price increase? Is that directionally how you're thinking about it?

Paul Joachimczyk
CFO & Principal Accounting Officer

Yes. So Gabe, I'll break this down. So the consumer impact, you're spot on around the positive price cost sitting in consumer. Now with the contractual targeted increases that are out there, that will help keep that momentum out there for us and still have a positive price/cost relationship in the consumer space.

On the industrial side, though, it was lagging on kind of call it the price cost recoveries that are out there, and we're seeing a little bit more stronger lift. And that really had to do with the inflation that was incurred in the second quarter.

So saying specifics around numbers, there is -- that's a -- I'll say I'm going to stay away from that, but we do expect our Q3 to sit still right on top of consensus as it sits today. We're not seeing anything that's changing around there.

Now the URB though, the $15 million, it's highly dependent upon what actually happens in the market base from a pricing that's out there. So if you do see a drop and we don't get any recovery, a little bit tough too to balance it out because we have such high demand in our mill utilization that's out there. So it's really -- it's challenging to say that, that would be the impact. But if it did market stop, I'd say you'd be in the right range for that for industrials.

Gabrial Shane Hajde
Wells Fargo Securities, LLC, Research Division

Okay. And then I appreciate a little bit of a management philosophy, but you're talking about low end of the guide for EPS. And the range, I appreciate, is still pretty large for EBITDA for understandable reasons. Is there maybe some justification or thought behind maybe not lowering that to $12.50 to 1.3 or something like that?

I don't want to put words in your mouth, but just given the volatility and seemingly things re-escalating in the Middle East, putting some upward pressure on input costs? Or is there something that you see in the second half that can kind of give you still a clear path to maybe mid-range, upper end of the guide?

Paul Joachimczyk
CFO & Principal Accounting Officer

Yes. So Gabe, honestly, Q3 is our most critical quarter for this company, and it is highly dependent on our pack season. And right now, the early indicators of pack seasons are it's coming in strong. And so what I wanted to do is give us the optionality. Now after Q3 gets done, we'll be able to tighten that range up and dial it in right for the full year. But given that close to 40% of all of our profits happen in that third quarter, we wanted to keep the optionality around the range open.

Operator

Your next question comes from the line of Anojja Shah with UBS.

Anojja Aditi Shah
UBS Investment Bank, Research Division

I just have a quick question. It sounds like you have the investment in saturating URB. You have some capacity expansion plans in paper cans. So given what we know now, is it correct to say that there will be a step-up in CapEx in 2027? And if so, what kind of order of magnitude are we talking about?

Robert Howard Coker
President, CEO & Director

No, we really -- first off, on the paper can side of it, what we've seen from a growth perspective is actually capital that's been deployed year-to-date. Going forward, and I noted several multiple different projects, we're very comfortable to maintain the type of capital expenditure range that we've been in, which is roughly about 4% of our turnover and pacing ourselves through that. So as we work with our customers, we think that the timing, we should not see a material step-up beyond just what I said, about a 4% rate against our sales.

Anojja Aditi Shah
UBS Investment Bank, Research Division

Okay. And then just sticking with capital allocation. I know you're planning to continue paying down debt through your 3-year plan through 2028. But how do you think about share repurchases within there? Is there any opportunity to maybe step that up a bit over the next couple of years? Or how are you thinking about that?

Paul Joachimczyk

CFO & Principal Accounting Officer

Yes. it's a great question. And honestly, we remain committed to paying down our debt. But now we do get to a spot once we get our leverage ratio to the right kind of, I'll call it, targeted for the rating agencies. Our cost of debt sits around 3.5% today. And if our dividend yield is north of 4%, now it does create a different equation for us.

And now this is just math. Do we buy back shares because it's costing us more in a dividend? Or do we pay down more debt? And that's really an answer that we'll get to more in the '27 and '28 equations. But we feel really good about where we sit. And so share repurchases can become an option for us in the future.

Operator

Your next question comes from the line of John Dunigan with Jefferies.

John Robert Dunigan
Jefferies LLC, Research Division

So just looking at 3Q volumes, I get that they're much more dependent for consumer on the pack season. But with the businesses that struggled focusing on Americas, sealants and aerosols in 2Q, I'm just wondering what do you have baked into the guide? Have you lapped some of those aerosol gains that you had at this point? And then specific comp issues, anything that we should think of in second half as we're modeling?

Robert Howard Coker
President, CEO & Director

Yes, I wouldn't think so from a comp perspective. And our go forward is not to expect that we're going to see much lift. And let's don't overreact in terms of the A&S side. It represents about 15% of our turnover or so in our North America-only paper can business, it's down, but it's still a bit highly active, but it's just not meeting our original expectations. So as we go into the second half, we're not planning on any material improvements that's built into our guide.

John Robert Dunigan
Jefferies LLC, Research Division

Great. And then I just wanted to touch quickly on the freight surcharge opportunities that you called out in the deck. Just wondering what the opportunities are. Is this contractual price recovery that you guys are able to implement, have implemented? I would think it's going back up. And then maybe you could just touch on how your freight is. Is it mostly spot contracted? I'm thinking particularly on the URB side where you guys are running particularly having to import tons from abroad?

Robert Howard Coker
President, CEO & Director

Mostly contracted and balance with some spot to answer that side of it first. And we are just simply putting in surcharges. There will be an exception here and there, but for the most part, it's -- and this is not new to the world. It's a line item at the bottom of the invoice that says fuel surcharge, and it will come and go as diesel varies.

Operator

We have reached the end of the question-and-answer session. I will now turn the call back to Roger Schrum for closing remarks.

Roger P. Schrum
Head of Investor Relations & Global Marketing Communications

Yes, I want to thank everybody's participation today and look forward to further communication during the next quarter. You can now hang up.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.